

Embratel Participações S.A.

Report of Independent Public Accountants on the
Special Review of Quarterly Information

March 31, 2002

Report of Independent Public Accountants on the Special Review

(Translation of the report originally issued in Portuguese.
See Note 24 to the quarterly report.)

To the Shareholders and Board of Directors of

Embratel Participações S.A.:

(1) We have made a special review of the quarterly report of EMBRATEL PARTICIPAÇÕES S.A. (a Brazilian corporation), which includes the individual and consolidated balance sheets as of March 31, 2002, the related statements of income for the quarter then ended, report on performance and other material information.

(2) Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors - Ibracon, together with the Federal Accounting Council, and comprised: (a) inquiries of and discussions with Company's Management responsible for the accounting, financial and operating areas as to the principal criteria adopted in the preparation of the quarterly information; and (b) review of information and subsequent events that had or might have had significant effects on the financial position and operations of the Company.

(3) Based on our special review, we are not aware of any material modification that should be made to the information contained in the quarterly report referred to in paragraph (1), for it to be in accordance with accounting practices established by the corporate law in Brazil and presented in accordance with standards laid down by Brazilian Securities Commission (CVM), specifically applicable to the preparation of quarterly information.

(4) The individual and consolidated balance sheets as of December 31, 2001, presented for comparative purposes, were reviewed by us, and our unqualified opinion report was issued on February 15, 2002. The individual and consolidated statements of income for the quarter ended March 31, 2001, presented for comparative purposes, were reviewed by us, and our unqualified special report was issued on May 7, 2001.

Rio de Janeiro, May 7, 2002

ARTHUR ANDERSEN S/C

Francisco Papellás Filho
Engagement Partner

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF MARCH 31, 2002 AND DECEMBER 31, 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 24 to the financial statements)

A S S E T S

	Notes	Company		Consolidated	
		March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
CURRENT ASSETS		49,537	49,236	3,484,977	3,377,607
		-----	-----	-----	-----
Cash and cash equivalents	9	21,038	20,875	661,760	652,153
Trade accounts receivable	10	-	-	1,886,655	1,929,278
Deferred and recoverable taxes	11	28,499	28,361	693,082	606,191
Other current assets		-	-	243,480	189,985
NONCURRENT ASSETS		12,516	12,516	910,707	899,031
		-----	-----	-----	-----
Deferred and recoverable taxes	11	-	-	510,917	490,604
Deposits in court		12,516	12,516	343,818	341,562
Other noncurrent assets		-	-	55,972	66,865
PERMANENT ASSETS		5,307,775	5,344,538	8,162,379	8,181,438
		-----	-----	-----	-----
Investments	12	5,307,775	5,344,538	170,801	169,627
Property, plant and equipment	13	-	-	7,839,345	7,849,429
Deferred assets	14	-	-	152,233	162,382
		-----	-----	-----	-----
Total assets		5,369,828	5,406,290	12,558,063	12,458,076
		=====	=====	=====	=====

The accompanying notes are an integral
part of these balance sheets.

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF MARCH 31, 2002 AND DECEMBER 31, 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 24 to the financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Company		Consolidated	
		March 31, 2002	December 31, 2001	March 31, 2002	December 31 2001
CURRENT LIABILITIES		46,340	46,187	3,738,207	3,497,864
Personnel, charges and social benefits		3	2	113,967	99,202
Accounts payable and accrued expenses	15	168	1	1,619,244	1,569,123
Taxes and contributions	16	22,584	22,606	472,806	450,308
Dividends and interest payable on capital	20	23,528	23,565	31,822	30,240
Loans and financing	17	-	-	1,195,865	1,079,953
Provision for contingencies	18	-	-	37,590	33,573
Employees' profit sharing		-	-	31,362	22,610
Actuarial liabilities – Telos	19	-	-	62,675	61,506
Related party liabilities	21	-	3	48,655	39,091
Other current liabilities		57	10	124,221	112,258
NONCURRENT LIABILITIES		13,431	13,431	3,136,247	3,236,877
Loans and financing	17	-	-	2,553,508	2,648,157
Actuarial liabilities – Telos	19	-	-	352,362	358,343
Taxes and contributions	16	12,516	12,516	229,462	229,462
Sundry credits		915	915	915	915
DEFERRED INCOME		-	-	134,158	132,038
MINORITY INTEREST		-	-	239,394	244,625
SHAREHOLDERS' EQUITY	20	5,310,057	5,346,672	5,310,057	5,346,672
Capital stock paid-in		2,273,913	2,273,913	2,273,913	2,273,913
Revenue reserves		1,912,113	1,912,113	1,912,113	1,912,113
Treasury stock		(41,101)	(41,101)	(41,101)	(41,101)
Retained earnings		1,165,132	1,201,747	1,165,132	1,201,747
Total liabilities and shareholders' equity		5,369,828	5,406,290	12,558,063	12,458,076

The accompanying notes are an integral
part of these balance sheets.

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2002 AND 2001

(In thousands of Brazilian reais, except share data)

(Translation of the report originally issued in Portuguese.

See Note 24 to the financial statements)

	Notes	Company		Consolidated	
		March 31		March 31	
		2002	2001	2002	2001
GROSS OPERATING REVENUE:					
Telecommunications services		-	-	2,316,622	2,481,005
Gross revenue deductions		-	-	(519,667)	(638,279)
		-----	-----	-----	-----
Net operating revenue	5	-	-	1,796,955	1,842,726
Cost of services	6	-	-	(1,193,810)	(1,208,099)
		-----	-----	-----	-----
Gross profit		-	-	603,145	634,627
		-----	-----	-----	-----
OPERATING REVENUES (EXPENSES)		(37,543)	(25,153)	(542,133)	(462,260)
		-----	-----	-----	-----
Selling expenses		-	-	(280,719)	(261,633)
General and administrative expenses		(780)	(872)	(262,903)	(211,621)
Other operating revenues (expenses), net		-	-	1,489	9,027
Equity method results		(36,763)	(24,281)	-	1,967
		-----	-----	-----	-----
OPERATING INCOME (LOSS)					
BEFORE INTEREST		(37,543)	(25,153)	61,012	172,367
		-----	-----	-----	-----
Interest income (expense)	7	967	348	(98,987)	(201,114)
		-----	-----	-----	-----
OPERATING LOSS		(36,576)	(24,805)	(37,975)	(28,747)
		-----	-----	-----	-----
Nonoperating income (expense)		-	(28)	2,071	451
		-----	-----	-----	-----
NET LOSS BEFORE TAXES, PROFIT					
SHARING AND MINORITY INTEREST		(36,576)	(24,833)	(35,904)	(28,296)
Income tax and social contribution on profits	8	(39)	-	11,170	8,094
Employees' profit sharing		-	-	(8,754)	(11,556)
Minority interest		-	-	(2,952)	(1,989)
		-----	-----	-----	-----
NET LOSS FOR THE YEAR	20	(36,615)	(24,833)	(36,440)	(33,747)
		=====	=====	=====	=====
QUANTITY OF OUTSTANDING SHARES					
(IN THOUSANDS)		332,932,361	332,919,028		
		=====	=====		
NET LOSS PER THOUSAND SHARES IN R\$		(0.11)	(0.07)		
		=====	=====		

The accompanying notes are an integral part of these financial statements.

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE FIRST QUARTER OF 2002

(In thousands of Brazilian reais, except as indicated otherwise)

(Translation of the report originally issued in Portuguese.
See Note 24 to the financial statements)

1. OPERATING OVERVIEW

Embratel Participações S.A. was incorporated in accordance with article 189 of Law no. 9,472/97 - General Telecommunications Law - based on Decree no. 2,546 of April 14, 1998. The Company resulted from the spin-off from Telecomunicações Brasileiras S.A. - Telebrás, as approved at the May 22, 1998 General Meeting of Shareholders. The spin-off was based on an appraisal report as of February 28, 1998.

The Federal Government sold its interest of 19.26% in Embratel Participações S.A., at a public auction at the Rio de Janeiro Stock Exchange held on July 29, 1998, to Startel Participações Ltda. (WorldCom).

Embratel Participações S.A. holds 98.8% of the capital of Empresa Brasileira de Telecomunicações S.A. - Embratel. Embratel provides international and domestic long-distance telecommunications services in Brazil, under the terms of the concession authorized by the Federal Government, which will expire on December 31, 2005, and may be renewed for a 20-year term.

On November 1, 2000, the subsidiary Embratel incorporated Star One S.A. to manage satellite operations, becoming the main Brazilian provider of transponders for radio-communication services such as: (i) network services; (ii) end-to-end telecommunications services; and (iii) transmission of radio and television broadcasting. On the date of incorporation, all terms and conditions related to Brazilian satellite rights and obligations were transferred to Star One, which became the licensee for providing these services until December 31, 2005, free of any burden, except when indicated, renewable for a 15-year term.

The businesses of the subsidiaries, Embratel and Star One S.A., are regulated by the regulatory authority for the Brazilian telecommunications industry ANATEL (Agência Nacional de Telecomunicações), pursuant to Law No. 9,472, of July 16, 1997 and related regulations, decrees, decisions and plans.

2. PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements as of March 31, 2002 were prepared in accordance with accounting practices established by the Brazilian corporate law, instructions applicable to telecommunications concessionaires and rules and accounting procedures established by the Brazilian Securities Commission (CVM - Comissão de Valores Mobiliários).

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

a. Cash and Cash Equivalents

Cash and cash equivalents are highly liquid temporary investments that will be held until maturity and are recorded at cost, plus interest earned through the balance sheet date, limited to market value, when applicable.

b. Trade Accounts Receivable

Trade Accounts Receivable refer primarily to the amounts receivable from long distance domestic and international telecommunication and data services, billed and/or unbilled at the closing dates of the financial statements, through operating telecommunications companies.

Allowances for doubtful accounts are accrued for receivables for which recoverability is considered doubtful.

c. Foreign Currency Transactions

Assets and liabilities denominated in foreign currency are stated at the exchange rate prevailing at the closing dates of the financial statements. Exchange gains or losses are recorded in the income statement, classified as Interest Income (Expense) when incurred. The effects of exchange rate differences are detailed in Note 7.

d. Investments

This account refers substantially to investments in subsidiaries, recorded under the equity method. Other investments refer mainly to equity in satellite companies Intelsat, Inmarsat and New Skies, recorded at acquisition cost, adjusted for any exchange gains or losses and net of provisions for probable losses, when applicable.

e. Property, Plant and Equipment

Property, plant and equipment is recorded at cost of acquisition and/or construction, less the accumulated depreciation, monetarily restated up to December 31, 1995.

Expenses for maintenance and repair are expensed as incurred. Expenditures for betterment to fixed assets (which increase the utility of the asset or extend the physical life) are capitalized. The interest charges arising from financing of construction in progress are recorded in Property, Plant and Equipment.

As described in Note 13, fixed assets acquired through leasing contracts are capitalized and the corresponding lease finance reported as a liability. The liabilities arising from such transactions bear interest and, where applicable, exchange variations.

The current annual depreciation rates used are calculated on the straight-line method based on the expected useful life of the assets. The main rates are shown in Note 13.

f. Deferred Assets

This represents the goodwill associated with the acquisition of Acessionet Ltda., which is being amortized over 5 (five) years (Note 14).

g. Income Tax and Social Contribution

The corporate income tax and social contribution on net income are recorded on an accrual basis. Deferred taxes are provided on temporary differences, tax losses and negative basis for social contribution purposes, as described in Notes 8, 11 and 16.

h. Provision for Contingencies

The provision for contingencies is updated through the closing dates of the financial statements based on the probable loss, according to the nature of each contingency. The basis and nature of the provisions are described in Note 18.

i. Actuarial Liabilities - Telos

The subsidiaries Embratel and Star One sponsor a separate entity that provides pensions and other post-retirement benefits for their employees (Note 19). Contributions to the defined benefits plan, defined contributions plan and health care plan for retired employees are recorded on the accrual basis. Contributions to the defined benefits plan are determined according to actuarial calculations.

Actuarial liabilities were calculated and recognized in financial statements as of December 31, 2001, according to CVM Deliberation No. 371 issued on December 13, 2000.

j. Deferred Income

This amount is related to the sale of rights of way primarily for fiber optic cables to Brazilian telecommunications companies and other international companies with activities in the Mercosur, and is reflected in results according to the terms of the contracts.

k. Revenue Recognition

Revenues from services are recognized using the accrual method of accounting, after deducting an estimate for billing errors or disputes. Revenues from international services also include revenues earned under bilateral agreements between the subsidiary Embratel and overseas telecommunications companies. These agreements govern tariffs paid by the subsidiary to the foreign entities for the use of their facilities in connecting international calls billed outside Brazil. Revenues from international calls are recognized monthly as they are made, net of the cost of services rendered by overseas telecommunications companies.

l. Interest Income (Expense)

This represents interest and monetary and exchange variations resulting from financial applications and loans and financing obtained, which are recognized on an accrual basis.

m. Employees' Profit Sharing

The subsidiaries Embratel and Star One have provided for employee's profit sharing, payment of which is subject to approval by the General Meeting of Shareholders.

n. Minority Interests

Refers to the minority shareholder interests in the Embratel and Star One subsidiaries.

o. Net Loss per Thousand Shares

Net loss per thousand shares are calculated based on the number of shares outstanding at the balance sheet date.

p. Use of Estimates

For consolidation purposes, Management is required to make estimates and assumptions related to the recording of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of income and expenses throughout the period. Actual results may differ from these estimates.

4. CONSOLIDATION PROCEDURES

For consolidation purposes, intercompany balances and transactions were eliminated, including items such as intercompany investments, unrealized profits, when applicable, equity adjustments, intercompany income and expense accounts and intercompany balances under short and long-term assets and liabilities. The intercompany investments were eliminated against the respective intercompany shareholders' equity. Minority interests in the results and shareholders' equity are also separately reported.

The consolidated financial statement as of March 31, 2002 and December 31, 2001 include the financial statements of Embratel Participações S.A. and of its direct and indirect subsidiaries, as follows:

	<u>Voting capital stock</u> Direct and/or indirect share (%)
Empresa Brasileira de Telecomunicações S.A. – Embratel	98.8
Embratel Soluções Ltda.	100.0
BrasilCenter Comunicações Ltda.	100.0
Embratel Americas, Inc.	100.0
Star One S.A.	80.0
Ponape Telecomunicações Ltda.	100.0
Palau Telecomunicações Ltda.	100.0
Embratel Clearinghouse Ltda.	100.0
Embratel Internacional S.A.	100.0

5. NET OPERATING REVENUE

	<u>Consolidated</u>	
	<u>March 31</u>	
	<u>2002</u>	<u>2001</u>
Voice-		
Domestic long-distance	1,119,337	1,107,993
International long-distance	172,679	220,086
	-----	-----
	1,292,016	1,328,079
Data & Internet-		
Corporative and other	429,988	421,207
Telecommunications companies	20,145	38,445
	-----	-----
	450,133	459,652
Other services	54,806	54,995
	-----	-----
Net operating revenue	1,796,955	1,842,726
	=====	=====

6. COST OF SERVICES

	Consolidated	
	March 31	
	2002	2001
Interconnection/facilities	(854,526)	(883,869)
Depreciation and amortization	(235,764)	(221,056)
Personnel	(49,298)	(50,296)
Third-party services	(45,995)	(38,409)
Other	(8,227)	(14,469)
	-----	-----
Total	(1,193,810)	(1,208,099)
	=====	=====

The interconnection costs represent charges by the local fixed-line telephone companies for the use of private-circuit lines, and interconnection charges paid by the subsidiary Embratel to the three regional fixed-line companies, in accordance with the interconnection regime under Anatel Resolution No. 33, effective since April 1, 1998.

7. INTEREST INCOME (EXPENSE)

	Company		Consolidated	
	March 31		March 31	
	2002	2001	2002	2001
Interest income-				
Interest on temporary investments	967	348	31,886	17,645
Monetary variation - credit	-	-	45	280
Exchange variation - credit	-	-	4,495	47,515
	-----	-----	-----	-----
Subtotal	967	348	36,426	65,440
	-----	-----	-----	-----
Interest expense-				
Interest charges	-	-	(92,143)	(64,828)
Monetary variation - charge	-	-	(8,978)	(4,890)
Exchange variation - charge	-	-	(34,292)	(196,836)
	-----	-----	-----	-----
Subtotal	-	-	(135,413)	(266,554)
	-----	-----	-----	-----
Total	967	348	(98,987)	(201,114)
	====	====	=====	=====

8. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries accrue the income tax (IRPJ) and social contribution on profits (CSSL) on a monthly basis, paying such taxes on monthly estimates of taxable income based on the related interim financial statements, as provided in current tax legislation. The amounts of the prepaid Income Tax and Social Contribution are recorded as Income Tax - Estimated and Social Contribution - Estimated, and are shown as a deduction from the taxes payable (see Note 16).

Tax legislation introduced in 1995 (Law No. 8981) limited the offset of accumulated tax losses and negative calculation basis for social contribution on profits to 30% (thirty percent) of taxable income in each fiscal year. On March 31, 2002, the subsidiary Embratel had R\$155,957 of tax losses and R\$44,684 of negative basis of social contribution available for offset against future taxable income (on March 31, 2001 - R\$173,024 of tax losses and R\$61,722 of negative basis of social contribution).

8.1 Income Tax and Social Contribution Income (Expenses)

The income tax and social contribution expense is comprised of the current expense for the quarter, computed in accordance with current tax legislation, and of the deferred expense, corresponding to the effects of the taxes on the temporary differences arising or realized in the quarter. The deferred income tax and social contribution for the three-month periods ended March 31, 2002 and 2001 totals R\$20,030 and R\$12,968, respectively (consolidated), and were calculated on the allowance for doubtful accounts, accelerated depreciation, tax losses, temporarily nondeductible taxes, and other temporarily taxable and deductible revenues and expenses (Note 11).

Breakdown of Income Tax and Social Contribution Income (Expenses)

	Consolidated	
	Three-month period ended March 31	
	2002	2001
Current-		
Social Contribution	(2,347)	(1,292)
Income Tax	(6,513)	(3,582)
	-----	-----
Total current expense	(8,860)	(4,874)
	-----	-----
Deferred-		
Social Contribution	5,300	5,101
Income Tax	14,730	7,867
	-----	-----
Total deferred income	20,030	12,968
	-----	-----
Total	11,170	8,094
	=====	=====

The current expense on income tax and social contribution, presented in the income statement of the first quarter of 2002 arises substantially from the subsidiary Star One.

8.2 Reconciliation of Tax Income (Expenses) with Nominal Rates

The reconciliation between the income tax and the social contribution, calculated based on the statutory tax rates, and the amounts recorded as income tax and social contribution income/expense is shown below:

	Consolidated	
	March 31	
	2002	2001
Income before taxes and profit-sharing	(35,904)	(28,296)
Employee's profit sharing	(8,754)	(11,556)
	-----	-----
Net loss before taxes	(44,658)	(39,852)
	-----	-----
Social contribution income at nominal rate	4,019	3,587
Rate adjustment to obtain effective rate-		
Social contribution credit set up on exempt international income	-	2,261
Amortization of social contribution on goodwill from merger	(595)	(595)
Non-deductible financial charges	(1,074)	(1,156)
Other	602	(288)
	-----	-----
Social contribution benefit on statement of income	2,952	3,809
	-----	-----
Income tax income at nominal rate (25%)	11,165	9,963
Rate adjustment to obtain effective rate-		
Income tax on amortization of goodwill from merger	(1,653)	(1,653)
Non-deductible financial charges	(2,983)	(3,212)
Other	1,689	(813)
	-----	-----
Corporate income tax credit per statement of income	8,218	4,285
	-----	-----
Total (corporate income tax + social contribution)	11,170	8,094
	=====	=====

The provision for income tax was accrued based on taxable income at the rate of 15%, plus the additional 10% foreseen in the law. The social contribution was calculated at the rate of 9% in accordance with Provisional Measure No. 1991-12 of December 14, 1999.

9. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
Cash and bank deposits	106	107	317,031	292,932
Foreign short-term investments	-	-	104,282	136,356
Marketable securities	20,932	20,768	240,447	222,865
	-----	-----	-----	-----
Total	21,038	20,875	661,760	652,153
	=====	=====	=====	=====

Marketable securities are represented primarily by fixed income bonds. The investments abroad are funded from mutual traffic revenues received from international operators and invested in short-term financial applications.

10. TRADE ACCOUNTS RECEIVABLE

	Consolidated	
	March 31, 2001	December 31, 2000
Voice services	2,517,260	2,529,338
Data, telecom and other services	634,444	596,490
Foreign administrators	285,674	255,519
	-----	-----
Subtotal	3,437,378	3,381,347
Allowance for doubtful accounts	(1,550,723)	(1,452,069)
	-----	-----
Total	1,886,655	1,929,278
	=====	=====

11. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
Deferred tax assets-				
Provision for write-off of property, plant and equipment	-	-	10,897	11,656
Accelerated depreciation	-	-	24,511	32,052
Tax losses	-	-	38,989	28,419
Negative basis of social contribution purposes	-	-	4,022	216
Allowance for doubtful accounts	-	-	527,246	493,703
Goodwill on the acquisition of investment	-	-	33,717	35,965
Cofins/PIS - temporarily non-deductible	1,872	1,872	89,263	89,263
Other deferred taxes (provisions)	-	-	139,653	132,900
Withholding income tax (IRRF)	3,064	26,376	28,607	52,410
Recoverable income tax/social contribution	95	113	12,360	22,473
Value-added goods and services tax - ICMS	-	-	220,843	176,923
Other	23,468	-	73,891	20,815
	-----	-----	-----	-----
Total	28,499	28,361	1,203,999	1,096,795
	=====	=====	=====	=====
Current	28,499	28,361	693,082	606,191
	=====	=====	=====	=====
Noncurrent	-	-	510,917	490,604
	=====	=====	=====	=====

As part of the agreement for the sale of a minority shareholding in the subsidiary Star One S.A., in January 2001, SES Participações Ltda. (the Brazilian subsidiary of the new minority shareholder) was merged into Star One S.A. Deferred Income Tax and Social Contribution credits (Assets), in the amount of R\$33,717 as of March 31, 2002 resulted from that merger, and were recognized in Star One S.A.'s financial statements as a deferred asset and with a corresponding credit to a special reserve for goodwill in the shareholders' equity of the referred subsidiary, as foreseen in article 6 of CVM Instruction No. 319/99.

The decision to take a deferred tax credit on temporary differences, tax losses and negative basis of social contribution is supported by the record of income posted by the Company and its subsidiaries and by an appraisal made by the Company on prospects for future profitability in which it is assumed that this asset will be realized over a period of five years, at most.

12. INVESTMENTS

	Company	
	March 31, 2002	December 31, 2001
Investments - at equity-		
Empresa Brasileira de Telecomunicações S.A.	5,307,733	5,344,502
Embratel Soluções Ltda.	61	55
Ponape Telecomunicações Ltda.	10	10
Other investments - at cost	(29)	(29)
	-----	-----
Total	5,307,775	5,344,538
	=====	=====

The consolidated balance of investments as of March 31, 2002 and December 31, 2001, R\$170,801 and R\$169,627, respectively, refers substantially to interest in international satellite companies.

13. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Consolidated			
		March 31, 2002		December 31, 2001	
		Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	-	1,503,208	-	1,503,208	1,551,887
Switching equipment	7.69	1,595,838	(641,913)	953,925	952,748
Transmission equipment	10.00 to 20.00	7,019,464	(3,226,654)	3,792,810	3,880,998
Buildings and ducts	4.00	1,245,254	(614,780)	630,474	642,740
Other assets	5.00 to 20.00 (*)	1,872,350	(913,422)	958,928	821,056
Total		13,236,114	(5,396,769)	7,839,345	7,849,429

(*) Except for land, which on March 31, 2002 and December 31, 2001 amount to R\$189,660 and R\$165,918, respectively.

On March 31, 2002, fully depreciated assets amount to R\$1,393,481 (R\$1,451,197 on December 31, 2001).

Certain fixed assets are allocated for use in services provided under concession, which prevents their removal, disposal, assignment or use as guarantee in mortgages without the express prior authorization of the regulatory authority.

In the first quarter of 2002, the Company decided to start capitalizing the assets acquired through financial leasing contracts and to treat the corresponding obligations as liabilities. Therefore, on the date of the adoption of this practice, the accumulated cost of the leased assets was identified, the related accumulated depreciation calculated according to the estimated useful life of the assets, the amount of the corresponding liabilities was determined, and the amounts recorded. The adoption of this practice has not significantly impacted the financial statements.

14. DEFERRED ASSETS

On July 23, 2001, the subsidiary Acessionet Ltda. was merged into the subsidiary Embratel. As required by CVM Instruction No. 319/99 for cases when goodwill paid is economically supported by forecast future profits, the subsidiary Embratel transferred the goodwill paid upon the acquisition of Acessionet, in December 2000, to a specific account in deferred charges.

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Consolidated	
	March 31, 2002	December 31, 2001
Suppliers	1,233,171	1,188,446
Foreign administrators	285,079	275,235
Consignment for third-parties/other	100,994	105,442
	-----	-----
Total	1,619,244	1,569,123
	=====	=====

16. TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
Indirect taxes-				
ICMS (value-added goods and service tax)	-	-	88,693	104,372
PIS/Cofins (social/finance contributions)	11	5	27,349	30,008
PIS/Pasep - in suspension	2,229	-	96,422	94,176
Cofins – judicial deposit in court (increase of tax rate from 2% to 3%)	10,287	12,516	185,923	186,565
ISS (municipal service tax)	-	-	6,106	8,084
Other	-	-	8,739	9,905
Income taxes-				
Income tax on interest on capital	22,600	22,601	22,600	22,601
Income tax in suspension - Federal Senate Resolution No. 82/92	-	-	194,027	179,612
Income tax – estimate	(20)	-	21,078	-
Social contribution – estimate	(7)	-	7,476	-
Deferred taxes - liabilities-				
Law No. 8200/91 - supplementary monetary restatement	-	-	43,855	44,447
	-----	-----	-----	-----
Total	35,100	35,122	702,268	679,770
	=====	=====	=====	=====
Current	22,584	22,606	472,806	450,308
	=====	=====	=====	=====
Noncurrent	12,516	12,516	229,462	229,462
	=====	=====	=====	=====

17. LOANS AND FINANCING

	Consolidated			
	March 31, 2002			December 31, 2001
	Principal	Interest	Total	Total
Financial institutions	3,667,172	57,210	3,724,382	3,694,524
Suppliers	24,705	286	24,991	33,586
	-----	-----	-----	-----
Total	3,691,877	57,496	3,749,373	3,728,110
	=====	=====	=====	=====
Current	1,153,983	41,882	1,195,865	1,079,953
	=====	=====	=====	=====
Noncurrent	2,537,894	15,614	2,553,508	2,648,157
	=====	=====	=====	=====

Loans and financing with financial institutions are primarily denominated in foreign currency. Part of the debt is hedged against devaluation of the Brazilian Real through “swap” operations (Note 23), as described below:

	Amounts	%	Average cost of debt	Maturity
Current-				
Hedged debt (notional amount)	551,124	46.1	99.28% CDI p.a.	Up to 12 months
Unhedged debt	644,741	53.9	8.09% p.a. in foreign currency (I)	Up to 12 months
	-----	-----		
Total short term debt	1,195,865	100.0		
	=====	=====		
Noncurrent-				
Hedged debt (notional amount)	897,780	35.2	98.21% CDI p.a.	Up to 2.41 years
Unhedged debt	1,655,728	64.8	8.56% p.a. in foreign currency (I)	Up to 8.55 years
	-----	-----		
Total long term debt	2,553,508	100.0		
	=====	=====		
Total-				
Hedged debt	1,448,904	38.6		
Unhedged debt	2,300,469	61.4		
	-----	-----		
Total debt	3,749,373	100.0		
	=====	=====		

(I) Various interest rates in different currencies expressed in US Dollar equivalents as if all loans were US\$ denominated. The breakdown of debt by currency appears in item (c) of this note.

The Company's policy is to hedge all new debt with maturity of less than three years. This policy seeks to achieve a balance between preserving cash and protecting results from significant variations on exchange rates.

The suppliers' financing is foreign currency denominated and refers to purchases of materials and equipment used to enhance domestic and international telecommunication services.

a. Mode/Objective

	March 31, 2002	December 31, 2001
Local currency-		
Permanent assets financing--		
Financial institutions	36,875	34,498
	-----	-----
Total in local currency	36,875	34,498
	=====	=====
Foreign currency-		
Working capital	2,066,266	2,163,423
Permanent assets financing--		
Financial institutions	1,621,241	1,496,603
Suppliers	24,991	33,586
	-----	-----
Total in foreign currency	3,712,498	3,693,612
	=====	=====

b. Repayment Schedule

Noncurrent debt is scheduled to be repaid as follows:

Year	March 31, 2002	December 31, 2001
2003	1,090,255	1,295,478
2004	709,782	611,620
2005	331,698	326,014
2006	188,912	185,677
2007 and after	232,861	229,368
	-----	-----
Total	2,553,508	2,648,157
	=====	=====

c. Breakdown by Currency

Updated by	March 31, 2002		December 31, 2001	
	Exchange rate as of (in R\$)	Amount	Exchange rate as of (in R\$)	Amount
Real	-	36,875	-	34,498
US Dollar	2.323600	2,375,027	2.320400	2,634,208
French Franc	0.310358	166,326	0.313113	165,745
German Mark	1.040899	10,640	1.050140	10,580
Japanese Yen	0.017520	1,160,505	0.017704	883,079
		-----		-----
Total		3,749,373		3,728,110
		=====		=====

d. Guarantees

Loans and financing operations are guaranteed primarily by promissory notes.

18. PROVISION FOR CONTINGENCIES

In the normal course of business, the subsidiary Embratel is party to legal proceedings and potential discussions, including among others, labor, social security, tax, administrative and civil issues.

A significant portion of the contingencies discussed below involve complex issues, with unique characteristics applying either to Embratel itself or the telecommunications industry, and arise from different interpretations of the laws in effect, which are not yet covered by consolidated jurisprudence.

It should also be noted that most issues discussed below result from procedures followed prior to the Company's privatization, based on instructions issued by government entities at the time.

Based on the facts currently available and on the legal advisors' opinion, Embratel's Management believes that the outcome of a significant portion of present and future claims will be favorable to the Company.

Details of the key legal disputes currently in progress are described below:

a. Commercial Dispute with Third Parties

Subsidiary Embratel was notified upon the decision taken in the course of an arbitration case administrated by the International Court of Arbitration - ICA, Paris, where Embratel and another company were discussing credits and rights deriving from contractual infringements.

Since the arbitrators believed that part of the other company's allegations were valid, which results in the payment of indemnification, the Company accrued an allowance in the amount of R\$11,340 in its financial statements.

b. Labor Claims

The provision for loss on labor claims amounted to R\$19,750 on March 31, 2002 (R\$22,233 on December 31, 2001). Such amount represents Management's estimate, based on legal advice of probable loss on numerous suits filed by current and former employees. Additionally, the Company had unaccrued labor contingencies, on March 31, 2002, in the amount of, approximately, R\$29 million related to those claims for which the probability of loss was evaluated by its legal counsel as possible, thus no provision was recorded in the financial statements.

b.1 - INSS (Brazilian Social Security Institute)

On September 5, 2001, the subsidiary Embratel became aware of an unfavorable decision of the Social Security Council of Appeal on a claim regarding the applicability of Social Security charges (INSS) to certain fringe benefits, such as vacation bonus, life insurance, etc. The total amount of the INSS assessment is R\$55,000. Having exhausted appeals at the administrative levels, the Company immediately filed a court appeal seeking to cancel this assessment. Based on this initial appeal, more than 70% of the credit is currently in suspension, without any requirement for a deposit or guarantee, by force of early relief granted by the Court. The amount of R\$22,930, which was not covered by the initial appeal, is currently deposited in court. In light of the good chances of success on the judicial appeal and in view of analyses conducted internally and by external counsel, which have identified a series of mistakes in the calculations of the claims made by INSS, no loss provision was recorded relating to this assessment.

c. Tax Contingencies

c.1 Withholding Income Tax on Remittances to Foreign Telecommunications Companies

The subsidiary Embratel regularly makes payments to foreign telecommunications companies to complete international calls that originate in Brazil and terminate in a foreign country (outbound traffic). The Brazilian income tax law generally requires Brazilian recipients of services from foreign companies to withhold 25% from payments to such foreign companies for such services. However, based on decisions made in 1952 and 1953 by both the Brazilian Finance Ministry and the Taxpayers' Council, the Company has never withheld Brazilian income tax from such payments.

In addition, the International Telecommunications Convention of Nairobi, Kenya (Nairobi Treaty), dated November 6, 1982, is in force in Brazil, having been approved by Decree Law No. 55, of October 4, 1989, ratified by Presidential letter of January 21, 1990, and promulgated by Presidential Decree No. 70, of March 26, 1991. As a result, the subsidiary Embratel is required to comply with the Administrative Regulation of the International Telecommunication Union (ITU), of which Brazil is a member. Accordingly, Management believes that the subsidiary Embratel is under no obligation to withhold income tax on the remittances abroad to telephone operators for payment of international calls originating from Brazil, as established in the International Telecommunications Regulations approved in Melbourne, Australia, on December 9, 1988.

On February 8, 1999, the Company made a formal consultation on the matter to the Brazilian Income Tax authorities. In their September 3, 1999 reply, the tax authorities claimed that the exemption from the withholding income tax on remittances abroad is applicable only as from October 19, 1998, based on Decree No. 2,962/99, which approved the Constitution and Convention of the ITU. In their reply, the tax authorities also recognized that the withholding income tax on remittances made by the Company to foreign telecommunication operators should comply with Article 7 of the OECD Model. These guidelines are followed by Brazil for bilateral treaties on avoidance of double taxation, wherever doing so does not result in breaches of specific treaties or of additional protocol.

The Company decided to request a writ of mandamus from the 14th Federal Court of Rio de Janeiro, and on September 30, 1999 obtained a preliminary court decision suspending the ability of the tax authorities to demand payment of the tax which is the subject of the above-mentioned consultation.

On December 23, 1999, the Company was assessed by the Federal Revenue Agency (SRF) in the amount of R\$410,697 for not withholding the 25% income tax on payments made from December 1994 to October 1998. Such taxation did not take into consideration the analysis of bilateral double taxation treaties, which was specifically mentioned in the income tax authorities' response to the formal consultation made. The Company also challenged this assessment and submitted its administrative defense, which is being analyzed by the tax authorities.

Responding to a request from the Ministry of Communications, on October 31, 2000 the Federal Attorney General's Office issued an expert opinion on the tax disagreements in this matter and about income tax on inbound international revenues (item c.2 below). This opinion argues for the legitimacy of the payment and reflects the federal government's position against the Company. However, the Company's Management and its legal counsel believe that this opinion does not introduce any new facts or arguments that could change the evaluation of this issue when the final decision is issued by the competent authorities.

Regarding the court claim filed with the 14th Federal Court of Rio de Janeiro on January 14, 2002, it was issued a sentence which revoked the writ of mandamus, was revoked in a However, a fiduciary bank guarantee was presented and the payment of the credit will remain in suspension until the final decision is made. The Company is currently challenging that sentence.

Based on the interpretation of the Company's Management and Legal Counsel, which considers that the possibility of loss is minimal, no loss provision has been set up in the financial statements with respect to this dispute.

c.2 Income Tax on Inbound International Income

Based on its legal advisors' opinion, the subsidiary Embratel believes that the foreign operating income from telecommunications services (inbound traffic) is not subject to taxation, inasmuch as Law No. 9,249 of December 26, 1995, did not revoke the exemption established by specific legislation.

In connection with this matter, in late March 1999, the Federal Revenue Agency (SRF) assessed the Company in the amount of R\$287,239 for failing to pay the related income tax for the years 1996 and 1997. In late April 1999, the subsidiary Embratel filed an administrative defense against this assessment that is pending judgment at the first level of the judicial system.

However, the Company decided to pay such income tax for the period from August to December 1998, in the amount of R\$34,320 (including interest) and to continue paying such tax in the subsequent months until this issue is resolved. This practice avoids penalties and ensures the Company's right to claim the amount of the taxes paid in excess at the appropriate time. Such amount was paid in the first quarter of 1999 and recorded as an expense for that period.

On June 17, 1999, the Company was further assessed for nonpayment of income tax on net foreign source income for the year 1998 amounting to R\$64,396. The Company will continue paying income tax on the net foreign source income until the tax dispute is solved. The subsidiary Embratel also contested this assessment, filing an administrative defense, which was judged partially favorable due to the amount already paid as discussed above, and appealed to the Taxpayers' Council, which, on July 12, 2000, ruled against the Company. Due to this decision, the Company appealed to the Higher Chamber on March 16, 2001.

The expert opinion of the Federal Attorney General's Office (Advocacia Geral da União - AGU) issued on October 31, 2000 (refer to item b.1 above) also expresses the position of the executive branch of the federal government, against the Company's position. However, the Company's Management and its legal counsel understand that this opinion does not introduce any new facts or arguments of any nature that would alter the issue.

The Company's Management and its legal counsel consider that the probability of loss in this case is only reasonably possible and consequently no loss provision was recorded in the financial statements.

c.3 ICMS for Services Provided

Until the introduction of Complementary Law No. 87 of September 13, 1996 (Official Gazette of September 16, 1996), the Local Telecommunication Operating Companies invoiced and collected State Value-Added Tax ("ICMS") on Fixed Line Telecommunication Services, on a reduced basis equivalent to an effective rate of 13%, in accordance with ICMS Convention No. 27 of March 29, 1994.

With the above-mentioned Complementary Law entering into effect on September 16, 1996, the telecommunications operating companies of the Telebrás System were instructed by Telebrás to no longer invoice and collect such tax on international outbound telephone traffic.

Currently, certain state tax authorities are fining local telecommunications carriers for non-payment of ICMS related to international traffic.

The subsidiary Embratel received a number of fines for non-payment of ICMS for services provided, including international services and others, also considered by the Company as exempt or non-taxable. Based on the facts currently available, the Company's Management considered the probability of loss on this issue to be remote. The fines concerning facts that may lead to losses, according to the legal counsel, represent a total of approximately R\$298 million as of March 31, 2002. As a result of this evaluation, no provision was recorded in the financial statements.

Meanwhile, the subsidiary is participating in efforts to demonstrate the detrimental economic effects of any such tax being charged on the mentioned services, as well as the indispensability of establishing a tax system more appropriate to the sector.

c.4 PIS/Cofins Taxes

On August 21, 2001, the subsidiary Embratel received two tax claims from the Federal Revenue Service (SRF), totaling R\$501 million, including fines and interest, for prior years' PIS/Cofins taxes. The first claim, in the amount of R\$159 million, is related to PIS charges prior to 1995, which were offset according to Complementary Law No. 7/70. In similar cases, both the Taxpayers' Council, and more recently the Federal Court of Justice (STJ), in a decision of its First Section, were favorable to the offset made by the Company. The second claim, in the amount of R\$342 million, is related to Cofins exemption on the exportation of telecommunication services for revenues through the end of 1999. Embratel believes that these revenues were exempt, based on legal opinions on the legislation in effect at that time. Also regarding the Cofins claim, there were substantial mistakes in the calculations of the tax auditor, that would immediately reduce the claim by R\$226 million. Additionally, contradictory arguments were made in support of the claim, which demonstrate the lack of basis for the assessment, facilitating the Company's legal defense and making it likely that the entire case will be dismissed.

Based on facts and arguments provided, and also on the opinion of its external counsel, the Company's Management, evaluated the probability of loss in this assessments as remote. Accordingly, no provision was recorded in the financial statements for this matter.

d. Other Taxes

The determination of the manner in which Federal, State and Municipal taxes apply to the operations of the Company is subject to several interpretations due to the unique nature of such operations. Management believes that its interpretation of the Company's tax obligations is substantially in compliance with the current legislation. Accordingly, any changes in the tax treatment of these operations will result in new legislation or interpretative rulings on the part of the tax authorities.

e. Contingencies Related to Anatel and the State Government of São Paulo

As a result of the inconveniences caused to the telephone system users by the telecommunications carriers, on July 3, 1999, the implementation date for the new domestic dialing system, Embratel was officially notified by Anatel to pay a fine related to the period when the carriers implemented the change in dialing codes.

The Company filed suit contesting the validity of the fine, and was granted a temporary injunction for non-payment of the fine and a favorable opinion from the prosecutor's office. Nevertheless, on April 24, 2001, the lower court decision was announced, ordering the Company to pay the fine, but favoring the Company's request for lowering the amount to be paid from R\$55 million to R\$50 million. The Company appealed to the Court against this decision and obtained preliminary judicial instruments which may guarantee the non-payment of the fine while discussing this matter at the second court level.

Based on the same facts, the State of São Paulo and the Consumer Protection Foundation (Procon) filed a public civil action at the 14th Court of Public Finances of the State of São Paulo. On March 30, 2000, a lower court decision was announced, ordering the Company and the local carrier to pay a fine of R\$30 million and to reimburse the users of telephone services in the State of São Paulo for the phone calls made from July 3 to 12, 1999. The Company filed an appeal against this decision and is currently awaiting the outcome.

The Company's Management and its legal counsel consider that the probability of loss in these cases is only reasonably possible and consequently no loss provision was recorded in the financial statements.

f. Other judicial claims

The subsidiary Embratel is a defendant in two judicial claims against the Company for payment of indemnities for alleged unsettled contractual charges.

Considering the current status of the lawsuits and the arguments presented by legal counsel, the Company evaluates the probability of loss in such claims as probable and has recorded a loss provision in the amount of R\$6,500 in the financial statements.

19. ACTUARIAL LIABILITIES - TELOS

Telos - Fundação Embratel de Seguridade Social, a closed private pension fund, is a legal entity under private law, with the objective of providing pensions, assistance and non-profit activities, with administrative and financial independence, based in Rio de Janeiro. It was founded by the subsidiary Embratel on August 1, 1975.

Embratel sponsors two benefit plans: a defined benefits plan and a defined contributions plan, as well as a medical health care plan for retired employees who are participants of the defined benefits plan, all managed by Telos. The rate of contribution to the first plan (the defined benefits plan) for the year of 2001, which is the same as that forecast for the year of 2002, is 19.8% of the salary of the active participants in this plan (39 participants).

Subsequent to the privatization, the Company created a defined contributions plan, through Telos, which was reviewed and approved by the Brazilian Federal Government on November 19, 1998. Subsidiary Star One also became a sponsor effective November 1, 2000. All newly hired employees automatically adhere to the new plan and no further admittance to the defined benefits plan is allowed. For the defined contributions plan, the sponsor's contribution ranges from 3% to 8% of the participants' salary, in addition to the extraordinary contribution, foreseen in the plan's by-laws, for financing administrative expenses, and the balance of the account intended to cover cases of disability and death.

On September 1, 1999, a statement of recognition, acknowledgement of debt, acceptance and amortization of actuarial insufficiency was signed between the subsidiary and Telos, and approved by the Brazilian pensions regulatory authority ("Secretaria de Previdência Complementar"). In accordance with this statement, the actuarial insufficiency recognized in favor of Telos will be paid over the next 20 years, based on the monthly flow of benefits to the

employees covered by the defined contributions plan. The unamortized balance of the liability is increased monthly at the rate of remuneration of Telos assets. As of March 31, 2002, the outstanding balance payable to Telos amounts to R\$216,505 (R\$226,425 on December 31, 2001), which is not included in the total assets of the plans reported below.

The above mentioned pension and medical health care plans sponsored by subsidiaries Embratel and Star One are the only post-employment benefits granted to employees.

Upon the issuance of CVM Deliberation No. 371, on December 13, 2000, which approved the IBRACON pronouncement on accounting for employee benefits, new accounting guidelines were instituted for recording and disclosure of the effects arising from employee benefit plans.

Consequently, on December 31, 2001, the subsidiary Embratel recorded a liability in the amount of R\$193,424 against shareholders' equity in the form of a prior period adjustment. As of March 31, 2002, such cumulative liability amounted to R\$198,532.

Statement of changes in actuarial liabilities:

Beginning balance – unsecured liabilities (defined contributions plan, as of December 31, 2001)	226,425
Actuarial liabilities from CVM Deliberation 371 (medical assistance plan)	193,424

Actuarial liabilities as of December 31, 2001	419,849

Charges and interests on actuarial liabilities	13,938
Expected return on plans assets	(1,785)
Payments made in the period (defined contribution plan)	(16,965)

Actuarial liabilities as of March 31, 2002	415,037
	=====
Current	62,675
	=====
Noncurrent	352,362
	=====

Main actuarial assumptions used at balance sheet date:

(i) Discount rate for present value of actuarial liabilities	Inflation + 6.0% p.a.
(ii) Profitability rate expected for plan assets	Inflation + 9.0% p.a.
(iii) Average growth in salary, INSS benefit growth and plan benefit readjustment	Inflation + 0.0% p.a.
(iv) Long term annual inflation rate	5.0% p.a.
(v) Medical cost increase	Inflation + 5.54% p.a.

From an equity point of view, Telos' financial statements as of March 31, 2002, show the following balances (estimated and unaudited amounts):

Technical reserves -	
Mathematical reserves	1,610,728
Defined benefits plan -	
Benefits provided	742,596
Benefits to be provided	7,448
Defined contributions plan-	
Benefits provided	243,666
Benefits to be provided	617,018
Technical surplus	72,538

Total reserves	1,683,266
	=====
Assets of the plans-	
Fixed-income market	1,310,505
Variable-income market	235,167
Real estate market	88,738
Operations with participants	37,467

Total assets of the plans	1,671,877
	=====
Sponsors contributions in the period	5,951
	=====

20. SHAREHOLDERS' EQUITY

a. Capital Stock

The authorized capital on March 31, 2002 and December 31, 2001 is comprised of 700 billion common or preferred shares. The subscribed and fully paid-in capital stock amounts to R\$2,273,913 as of March 31, 2002. It is comprised of 334,399,028 thousand shares without par value, held (in-batches of one thousand shares) as follows: 124,369,031 common shares and 210,029,997 preferred shares. The book value per share (batches of one thousand shares, expressed in reais) as of March 31, 2002 and December 31, 2001, amounts to R\$15.88 and R\$15.99, respectively.

As of June 29, 2001, Startel Participações Ltda., which held 19.3% of the Company's capital stock, transferred 2,350,575 common shares (in thousands of shares) to a new shareholder, New Startel Participações Ltda., which now holds 0.7% of the Company's capital stock.

b. Income Reserves

Legal Reserve

The setting up of this reserve is compulsory based on 5% of net annual income up to the limit of 20% of the paid-in capital, or 30% of the capital stock taken together with capital reserves. After this limit, no further appropriation of this reserve is mandatory. The legal reserve may only be used for future capital increase or to offset accumulated deficits.

Unrealized Earnings Reserve

This reserve originates from the Telebrás spin-off (Note 1), and results from net gains on the monetary restatement of the balance sheet and from the equity pick up of investments. The reserve is realized when dividends are received from the subsidiaries, or to complement minimum dividends due to preferred shareholders.

c. Treasury Shares

As of March 31, 2001, the Holding Company held 1,466,667 thousand of its own preferred shares in treasury, at a weighted average cost of R\$28.02 per thousand shares. During the first quarter of 2002, there were no sales of treasury shares.

d. Dividends

The preferred shares are non-voting, except under certain limited circumstances. They are entitled to a minimum non-cumulative dividend of 6% per annum on the amount resulting from the division of the subscribed capital by the number of shares and have priority in relation to the common shares in the event of liquidation of the Company.

According to the Company's by-laws, dividends must be distributed for each fiscal year ended December 31. These dividends must be at least 25% of the adjusted net income. Dividends are calculated according to the Company's by-laws and in accordance with the corporate law. The proposed dividends are appropriated at year-end.

e. Stock Option Plan

The stock option plan was approved at the General Meeting of Shareholders held on December 17, 1998 and is regulated by the Management Commission on stock option plan, within the limits of its authority. The plan grants directors and employees the option of acquiring preferred shares at market value on the grant date in the proportion of 25% in each annual period, the first being after an eight-month period from the date the option was granted, and the other every

January after 2003. The options must be exercised within 10 years of the grant date. Until the third quarter of 2001, the market value at grant date was restated by the General Market Price Index (IGP-M) until the exercise date, with exercise proportional to 33.33% in each base-period, after one year as from the grant date, also within the limit of 10 years.

The acquired shares will maintain all of the rights pertaining to the shares of equal class and type, including dividends. The summarized information on the plan is as follows:

Number of preferred share purchase options (thousands of shares)-	
Open options as of December 31, 1999	1,762,667
Options offered in 2000	2,048,265
Options exercised in 2000	(122,700)
Options sold in 2000	(4,800)
Options cancelled in 2000	(130,000)

Open options as of December 31, 2000	3,553,432

Options offered in 2001	3,106,904
Options sold in 2001	(13,333)
Options cancelled in 2001	(382,292)
	=====
Open options as of December 31, 2001 / March 31, 2002	6,264,711
	=====
Weighted average exercise price of the purchase options on March 31, 2001 (per thousand shares, expressed in reais)-	6.53
	===

f. Reconciliation of Net Income of the Company to those
of the Consolidated Financial Statements

As of March 31, 2002 and 2001, the reconciliation between the Company's net loss for the period and the Consolidated net loss is as follows:

	March 31	
	2002	2001
	-----	-----
Company	(36,615)	(24,833)
Recognition of the effects from the merging process which occurred in the subsidiary Star One (Note 11)	-	(8,914)
Recognition of the effects from other subsidiaries in subsidiary Embratel)	175	-
	-----	-----
Consolidated	(36,440)	(33,747)
	=====	=====

21. TRANSACTIONS WITH RELATED PARTIES

After the privatization, the main transactions with related parties started being carried out with WorldCom, according to usual market conditions for these types of operations. Balances receivable and payable as of March 31, 2002 and 2001, resulting from such transactions, are as follows:

	Consolidated	
	March 31, 2002	December 31, 2001
ASSETS:		
Current-		
Foreign telecommunications operators (telephony traffic)- WorldCom	83,331	61,254
LIABILITIES:		
Current-		
Foreign telecommunications operators (telephony traffic)- WorldCom	75,667	44,018
Proceda	483	1,300
Other telecom companies	802	615
Mangement fee - WorldCom	48,655	39,091
	Consolidated	
	March 31, 2002	March 31, 2001
INCOME STATEMENTS:		
Net operating revenues-		
International traffic WorldCom	25,537	37,812
Cost of services -		
International traffic WorldCom	(17,934)	(16,882)
Proceda	(4,973)	(1,000)
Other	(1,165)	(269)
General and administrative expenses-		
Management fee - WorldCom	(9,003)	(9,375)

Under the terms of the concession contract with Anatel and as approved by the shareholders on November 18, 1998, in the three-month periods ended March 31, 2002 and 2001, the amounts of R\$9,003 and R\$9,375, respectively, were charged to General and Administrative Expenses for consulting services rendered by WorldCom International, Inc., a subsidiary of WorldCom.

22. INSURANCE (NOT REVIEWED)

The Company's Management considers that all assets and responsibilities of relevant values and risks are covered by insurance policies.

23. FINANCIAL INSTRUMENTS

a. Miscellaneous

The subsidiary Embratel carries out transactions with financial instruments designed to reduce the exposure to risks of fluctuation in currency and interest rates, which usually involve swap of indices and/or earnings/interest rates of cash equivalents and marketable securities and loans. The management of such risks is conducted by means of operating strategies and determination of limits.

b. Swap - Interest and Currency

The subsidiary Embratel used derivative operations to protect against the variation of foreign currency loan principal and interest against the Real. The par values of such operations, at the end of the first quarter of 2002, totaled R\$1,313,682 (R\$796,039 in 2001) and were not recorded in the balance sheet.

The gains and losses on such operations result from differences of variations in contracted indices, and are recorded on an accrual basis under Interest Income (Expense).

c. Criteria, Assumptions and Limitations in Market Value Calculations

Cash and Cash Equivalents, Trade Accounts Receivable and Accounts Payable - Current

The balances per books approximate market value because of the high turnover of these instruments.

Deferred Taxes - Assets and Liabilities

The market value was calculated through the discount of projected cash flows, indexed by the TJLP (a Brazilian benchmark long-term interest rate).

Loans and Financing

The market value is calculated through the present value of the projected cash flows related to each instrument, using current interest rates for similar instruments and maturity dates.

Limitations

The market values are calculated on a specific date, based on relevant market and financial instrument information. The changes in assumptions may significantly impact such estimates.

The financial instruments, including short-term amounts, which are recorded at amounts different from market values, are summarized below:

	Consolidated			
	March 31, 2002		December 31, 2001	
	Book value	Market value	Book value	Market value
Deferred and recoverable taxes	1,203,999	1,094,244	1,096,795	952,732
Assets	1,203,999	1,094,244	1,096,795	952,732
Taxes and contributions	702,268	652,873	679,770	622,300
Loans and financing	3,749,373	3,430,658	3,728,110	3,559,376
Liabilities	4,451,641	4,083,531	4,407,880	4,181,676

24. TRANSLATION OF THE REPORT ORIGINALLY ISSUED IN PORTUGUESE

The accompanying financial statements are presented on the basis of accounting practices established by the corporate law in Brazil. Certain accounting practices applied by the Company and its subsidiaries that conform to those accounting practices in Brazil may not conform to accounting principles generally accepted in other countries.

EMBRATEL PARTICIPAÇÕES S.A.

COMMENTS ON THE CONSOLIDATED PERFORMANCE IN THE FIRST QUARTER OF 2002 COMPARED TO THE MAIN VARIATIONS OCCURRED IN THE SAME PERIOD LAST YEAR

NET REVENUES

R\$ thousands	1Q01	2Q01	3Q01	4Q01	1Q02	% Var Year	% Var Quarter
Net Revenues	1,842,726	1,860,480	1,911,869	1,845,881	1,796,955	-2.5%	-2.7%
Voice Services	1,328,079	1,367,510	1,392,985	1,323,777	1,292,016	-2.7%	-2.4%
Data Services	459,652	434,780	458,644	461,653	450,133	-2.1%	-2.5%
Other	54,995	58,190	60,240	60,451	54,806	-0.3%	-9.3%

VOICE SERVICES

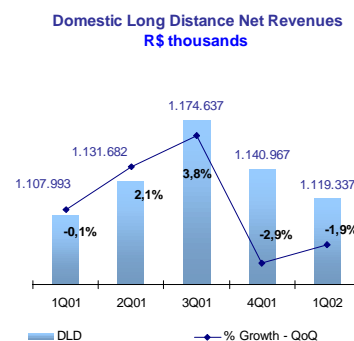
Active call management strengthens results

R\$ thousands	1Q01	2Q01	3Q01	4Q01	1Q02	% Var YoY	% Var QoQ
Total Voice	1,328,079	1,367,510	1,392,985	1,323,777	1,292,016	-2.7%	-2.4%
Domestic Long Distance	1,107,993	1,131,682	1,174,637	1,140,967	1,119,337	1.0%	-1.9%
International Long Distance	220,086	235,828	218,348	182,810	172,679	-21.5%	-5.5%

During the quarter Embratel continued to improve the collectibility of revenues by filtering the non-performing traffic through ECMS. On average, approximately 2.5 million lines were prevented from completing calls using the Embratel code throughout the quarter. Voice traffic and revenues fell accordingly. Embratel views the reduction in traffic positively since it is an important step in the direction of reducing uncollectible accounts and the related interconnection costs.

Domestic Long Distance

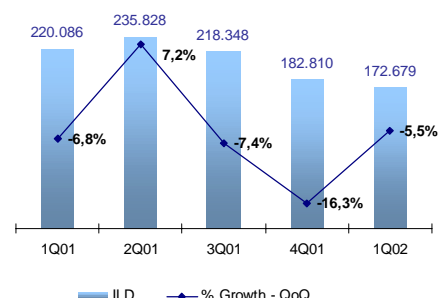
Domestic long distance revenues were flat at R\$1.1 billion in the first quarter of 2002 compared to the same 2001 quarter. Relative to the fourth quarter of 2001, domestic long distance revenues declined 1.9 percent. The main causes for this reduction were the interruption of non-paying traffic and the seasonal impact of the holiday period. Call management has a more significant impact on residential traffic



International Long Distance

International long distance revenues were R\$173 million in the first quarter of 2002 representing a decline of 21.5 percent when compared to the same quarter of the previous year. Compared to the fourth quarter of 2001, international long distance fell 5.5 percent. Price reductions and ECMS were responsible for the decline in international long distance revenues in the quarter. Both outbound and inbound rates decreased by 16 percent year-over-year. Also, lower traffic to and from Argentina contributed to a reduction in volumes year-over-year. These factors were responsible for the bulk of the revenue reduction in the period.

International Long Distance Net Revenues
R\$ thousands



Embratel expects a continued decline in revenues from this segment due to price reductions.

DATA COMMUNICATION SERVICES

Focusing on cash and profitable growth

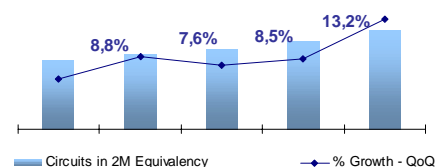
R\$ thousands	1Q01	2Q01	3Q01	4Q01	1Q02	% Var YoY	% Var QoQ
Total Data	459,652	434,780	458,644	461,653	450,133	-2.1%	-2.5%
Data & Internet	421,207	403,097	430,136	436,660	429,988	2.1%	-1.5%
Wholesale	38,445	31,683	28,508	24,993	20,145	-47.6%	-19.4%

Data communications revenues declined 2.1 percent to R\$450 million compared to the first quarter of 2001. Compared to the previous quarter, data revenues fell 2.5 percent. The reduction in data revenues was caused by a) contracts being renewed at current price levels; b) general reduction in Internet services prices (see February 5, 2002 Earnings Release) intended to drive further growth and insulate Embratel from competitors; and c) anticipated declines in wholesale revenues.

Embratel has been focusing its growth on high return sales and on winning profitable contracts. This strategy is consistent with our primary objective of cash generation and returns.

Despite the reduction in prices, volume growth is healthy. In 2 Mbits equivalent basis circuits volumes grew more than 40 percent year-over-year and 13 percent quarter over-quarter. In addition, Embratel's client base continues to increase.

Evolution
Circuits in 2M Equivalent



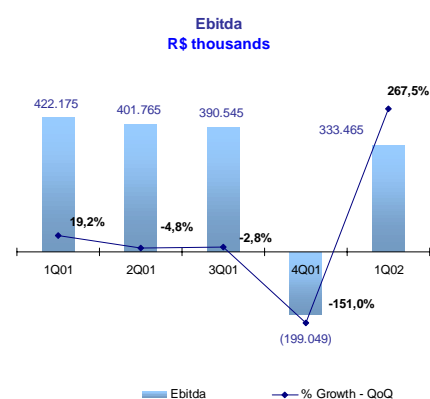
Also during the quarter, Embratel won significant contracts: Embratel was awarded the contract to provide telecommunications services to Banco Postal (5,000 locations throughout Brazil) and to provide Banco do Brasil's worldwide network. In addition, Embratel was appointed to be Shell Brazil's sole telecommunications provider including a complete range of data (frame relay, direct links, Global VPN, etc.) as well as voice services (VipPhone, 0800, Sempre 21, among others). In these transactions Embratel competed against local and foreign providers.

OPERATING INCOME BEFORE INTEREST

R\$ 000	1Q01	2Q01	3Q01	4Q01	1Q02	% Var Year	% Var Quarter
Net Income	1,842,726	1,860,480	1,911,869	1,845,881	1,796,955	-2.5%	-2.7%
Cost of Services	(1,208,099)	(1,239,697)	(1,273,248)	(1,233,757)	(1,193,810)	-1.2%	-3.2%
Operating Revenues (Expenses)	(462,260)	(478,866)	(517,037)	(1,094,186)	(542,133)	-17.3%	-50.5%
Operating income before Interest	172,367	141,917	121,584	(482,062)	61,012	-64.0%	-112.7%
Depreciation/Amortization effect	249,808	311,976	216,833	283,014	272,453	9.1%	-3.7%
Operating income before Interest, Depreciation and Amortization (EBITDA)	422,175	453,893	338,417	(199,049)	333,465	-21.0%	267.5%

EBITDA was R\$333 million in the first quarter of 2002. Compared to an effective quarterly EBITDA run rate of approximately R\$250 million in 2001, this represents a significant increase. The reduction in the provision for doubtful receivables was the primary reason for improvement in the EBITDA.

Embratel provisioned R\$174 million for doubtful receivables in the first quarter of 2002. This amount corresponds to 9.7 percent of net revenues. When compared to the average level of provisions taken in 2001 - 15.5 percent, it represents a substantial reduction. This decrease is conforming with our policy of provisioning all voice receivables past due above 120 days.



Thus, the amount provisioned in the quarter is largely related to bills from calls made in the months of August to October when current capabilities were not yet fully in place.

While the tools Embratel implemented to manage billing and collections have greatly enhanced the company's ability to deal with uncollectibles we expect the level of provisioning to remain high in the short term due to the lag which exists between the provisioning deadline and the initiation of massive call selection.

FINANCIAL POSITION AND INTEREST EXPENSES

Embratel Participações ended the quarter with a cash position of R\$662 million. Total debt outstanding as of March 31, 2002 was R\$3.7 billion (net debt of R\$3.1 billion). R\$1.2 billion corresponded to short term debt and current portion of long term debt.

As previously announced, Embratel concluded in the quarter its 2002 refinancing program. The major part of this program consists of a syndicated loan of US\$270 million. Another US\$35 million of trade related finance structured in April completed core 2002 financing needs. Excluding the repayment of a bridge loan of US\$ 161 million, the Company paid approximately US\$308 million of interest, principal, related taxes and commissions during the quarter.

While Embratel's debt profile continues to be primarily denominated in foreign currencies, portions of this debt have been swapped to the Real.

The March 31, 2002 end of quarter hedge position does not include another US\$100 million that were hedged on April 2, 2002. If this amount is included, short term hedged debt increases to 65.5 percent and total hedged debt increases to 44.8 percent. Compared to December 31, 2001 short term hedged debt also rose from 62.8 percent. Embratel continues to pursue hedging opportunities to fulfill its policy of hedging all new debt under 3 years maturity and will continue to hedge as market conditions permit.

Star One, Embratel's satellite subsidiary, has finalized the plans to launch a Ku-band satellite for broadband internet services, covering Latin America. The total investment over 3 years for this project is approximately US\$250 million, including the satellite, launch services, insurance and taxes. In April, Star One entered into a contract with BNP Paribas to finance 85 percent of the satellite. This is a 10 year loan with 3 years of grace period, reflecting the time to manufacture the satellite, with an all in cost of 9% per annum. Approximately US\$40 million to US\$50 million will be spent in 2002 and this amount is within Embratel's total projected Capex plan of R\$1.1 billion.

LOSS FOR THE PERIOD

The loss for the first quarter of 2002 was R\$36 million. In addition to the factors mentioned above, the loss includes the impact of higher financial costs on hedged debt despite the fact that the devaluation of the real had little impact on the Company's foreign currency debt (see Financial Position above). In the first quarter of 2001 the company's net loss was R\$34 million.

ACCOUNTS RECEIVABLES

The Company's net receivable position on March 31, 2002 was R\$1.9 billion, representing a slight improvement in collections and an increase in the provision for doubtful accounts. On March 31, 2002, the balance of this provision was R\$1.6 billion. Gross receivables were flat R\$3.4 billion in the first quarter of 2002 (Exhibit 12 and 13 below). Note there are zero unprovisioned voice receivables above 120 days.

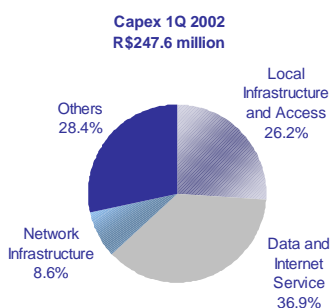
Co-billing has initiated with CTBC and Telemar. We expect to reach an agreement with Telefonica in the second quarter. We expect co-billing to eventually attenuate lack of payments because of incorrect or insufficient addressing information as well as offering clients an additional option for bill payment.

Embratel Participações SA R\$ thousands	Gross Receivables Mar 31,2002
Accounts Receivables	
Voice Services	2,517,260
Data, Telco and Other Services	634,444
Foreign Administrations	285,674
Gross Receivables	3,437,378
Allowance for Doubtful Accounts	(1,550,723)
Net Receivables	1,886,655

Embratel Participações SA R\$ thousands	Net Account Receivables
Voice Service	1,042,817
Current	65.2%
1-60 days	25.0%
61-120 days	9.8%
> 120 days	0

CAPITAL EXPENDITURES / LOCAL SERVICES

In the first quarter capital expenditures were R\$248 million. The breakout of this expenditure is: local infrastructure and access – 26.2 percent; data and Internet services – 36.9 percent; network infrastructure – 8.6 percent and others – 28.4 percent.



Embratel expects to be cash flow positive (after capex and interest expenses) in 2002.

Embratel has completed its Universalization obligations and is ready to initiate the providing local services as soon as Anatel grants the license.

Anatel's regulatory deadline to issue Embratel's universalization target completion certificate expired on March 22, 2002. We expect Anatel to grant us our certification at any moment.

PETITION - ANTI-COMPETITIVE PRACTICES

On April 15, 2002 Embratel and Intelig filed a petition to Cade (the Brazilian Anti-Trust Commission) via Anatel, which contains indications that Telemar, Brasil Telecom and Telefonica are engaging in illegal anti-competitive practices with respect to the interconnection rates charged to competitive long distance providers. Based on the analysis of publicly available financial information we show that either local/regional telcos charge their own long distance concessions a lower interconnection rate compared to those charged to the long distance carriers - a breach of the rule of equal treatment to all concessions; or their long distance concession is loss making at the operating level, in which case they are subsidizing their long distance concession through the interconnection revenues paid to their local concession. Also a violation of competitive rules.

In this petition Embratel requests:

1. That Anatel immediately demands that local/regional operators present separate financial statements for each concession (local and long distance) in accordance to article 96 of the General Telecommunications Law, showing the TU-RL tariffs charged to other long distance concessions and to their own;
2. That the interconnection rate be determined according to a formula whereby the highest TU-RL rate charged in its concession region(A) be lower than the lowest tariff charged to an end customer in its concession region(B) minus the highest TU-RIU charged in its concession region (C) or $A < (B-C)$.
3. Should Anatel decide not to adopt the above formula (2) for interconnection pricing, that it demands the local/regional company charge other long distance concessions an interconnection rate that given the prices it practices to end customers, will make its long distance concession cash positive;
4. Lastly, given the risks of elimination of the competitive environment, Embratel requests that these companies not be granted licenses to operate in the inter-regional and inter-national long distance markets until such anti-competitive practices are stopped.

CREATION OF BUSINESS UNITS

Early this month, Embratel created two business units: a Residential & Small Company business unit and a Large & Medium Company business unit. The purpose of this reorganization is to enhance focus and client orientation thereby raising the level of excellency in client services as well as increasing the agility and efficiency of our actions. The ultimate result we aim to achieve with this client focused organizational structure is to grow revenues and margins, generating cash and returns.

The Large & Medium Company business unit, to be headed by Eduardo Levy, will provide voice, data and network services to government entities and companies, and to large and medium businesses. The Residential & Small Company business unit will provide voice and data services to the residential and small business market. It will be headed by José Maria Zúbiria who will continue as Embratel's CFO until the appointment of a successor.

Embratel is the premier communications provider in Brazil offering a wide array of advanced communications services over its own state of the art network. It is the leading provider of data and Internet services in the country. Service offerings include: advanced voice, high-speed data communication services, Internet, satellite data communications and corporate networks. Embratel is uniquely positioned to be the all-distance telecommunications network of South America. The Company's network is has countrywide coverage with 28,868 km of fiber cables comprising 1,068,657 km of optic fibers.

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EMPRESA BRASILEIRA DE TELECOMUNICAÇÕES S.A. - EMBRATEL

STATEMENTS OF INCOME OF SUBSIDIARIES/AFFILIATES

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2002 AND 2001

(In thousands of Brazilian reais, except for net earnings per thousand shares)

(Translation of the report originally issued in Portuguese.
See Note 24 to the financial statements.)

	March 31	
	2002	2001
GROSS OPERATING REVENUE:		
Telecommunications services	2,316,621	2,481,005
Gross revenue deductions	(519,665)	(638,279)
	-----	-----
Net operating revenue	1,796,956	1,842,726
Cost of services	(1,193,810)	(1,208,099)
	-----	-----
Gross profit	603,146	634,627
	-----	-----
OPERATING REVENUES (EXPENSES)	(541,359)	(461,381)
	-----	-----
Commercialization of services	(280,719)	(261,634)
General and administrative	(262,129)	(210,742)
Other operating revenue (expenses)	1,489	10,995
	-----	-----
OPERATING INCOME BEFORE INTEREST	61,787	173,246
Interest expense	(99,956)	(201,463)
	-----	-----
OPERATING LOSS	(38,169)	(28,217)
	-----	-----
Nonoperating income (expense)	2,071	479
	-----	-----
NET LOSS BEFORE TAXES AND PARTICIPATIONS	(36,098)	(27,738)
Income tax and social contribution on profits	11,209	8,094
Employees' profit share	(8,754)	(11,556)
Minority interest	(3,406)	(2,401)
	-----	-----
NET LOSS FOR THE YEAR	(37,049)	(33,601)
	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)	4,723,844	4,723,844
	=====	=====
NET LOSS PER THOUSAND SHARES	(7.84)	(7.11)
	=====	=====

The accompanying notes are an integral
part of these financial statements.

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